

November 2014

Guidelines on Enforcement Measures Against Recognised Supervisory Bodies & Recognised Qualifying Bodies

Consultation Document

The FRC is responsible for promoting high quality corporate governance and reporting to foster investment. We set the UK Corporate Governance and Stewardship Codes as well as UK standards for accounting, auditing and actuarial work. We represent UK interests in international standard-setting. We also monitor and take action to promote the quality of corporate reporting and auditing. We operate independent disciplinary arrangements for accountants and actuaries; and oversee the regulatory activities of the accountancy and actuarial professional bodies.

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8th Floor, 125 London Wall, London EC2Y 5AS

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Introduction

The Financial Reporting Council (“FRC”) is the UK’s independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. The FRC has various responsibilities which contribute to this aim. In particular, the FRC oversees the regulatory activities of the accountancy and actuarial professional bodies. In relation to statutory audit, the FRC is the body designated to exercise the powers conferred on the Secretary of State by Part 42 of the Companies Act 2006 (“Part 42” and the “2006 Act” respectively) pursuant to the Statutory Auditors (Amendment of Companies Act 2006 and Delegation of Functions etc.) Order 2012.

Part 42 states that the main purposes of Part 42 are to secure that only persons who are properly supervised and appropriately qualified are approved as statutory auditors and to secure that the audits carried out by persons so appointed are carried out properly, with integrity and a proper degree of independence. Consequently, Part 42 and Schedules 10 and 11 of the 2006 Act contain a number of requirements and obligations with which professional bodies must comply and fulfill in order to earn and retain their status as Recognised Bodies under the 2006 Act (the “Requirements”).

Part 42 permits the FRC, in the exercise of its delegated powers to impose various enforcement measures in the event of non-compliance by recognised bodies with the Requirements (the “Enforcement Measures”) and the FRC and the Department for Business Innovation & Skills consulted on the Enforcement Measures amongst other issues in October 2011 [<https://www.frc.org.uk/FRC-Documents/FRC/Consultation-on-the-future-role-of-the-Financial-R.aspx>].

The FRC has developed Guidelines concerning the imposition of the Enforcement Measures (the “Guidelines”). The purpose of the Guidelines is to ensure transparency and consistency in the determination of Enforcement Measures by the Board.

The proposed Guidelines are principles based, rather than tariff based. This is considered appropriate and is consistent with the principles of good regulation, as is further set out in Section 2.

The consultation period in respect of the Guidelines closes on 20 February 2015.

The FRC's Policy

The FRC is committed to upholding the five principles of good regulation proposed by Sir Philip Hampton in his 2005 report, *Reducing Administrative Burdens: Effective Inspection and Enforcement*: proportionality, accountability, consistency, transparency and targeting. These Guidelines should be consistent with these regulatory principles and with the overarching principles of fairness and natural justice.

Further to the Hampton report, the Macrory report was commissioned by the government and *Regulatory Justice: Making Sanctions Effective* was published in 2006. This report emphasised the need for transparency in relation to the enforcement policy of regulators, and set out that such a policy should, amongst other things, explain the range of enforcement options available to the regulator and explain the criteria upon which decisions are made when choosing what specific enforcement action to take in each case of non-compliance, including any aggravating or mitigating factors the regulator might take into account before applying a particular sanction.

The report sets out the characteristics of a good enforcement policy stating:

- *'Enforcement policies must always retain a degree of flexibility, since I believe the choice of sanctioning response can never be a purely mechanical exercise. But if they are to be of real value to the regulated community, it is important that they are drafted with reference to the specific area of regulation to which they relate, rather than expressed in over-generalised terms, although I expect there would be some over-arching principles which would apply to all areas.'* (Para 5.11)
- *'The language in an enforcement policy should not however be over-specific on what a business should expect when found in each and every potential type of breach. This would be arduous and bureaucratic and would bind a regulator's discretion too tightly leading to an overly rigid enforcement system that would not be beneficial for the regulator, the regulated community, or the public. Flexibility remains a cornerstone of a good enforcement system.'* (Para 5.12)

The Regulators' Code issued by the BIS's Better Regulation Delivery Office and currently in force as at the date of this Consultation is intended to: *"Provide a flexible, principles based framework for regulatory delivery that supports and enables regulators to design their service and enforcement policies in a manner that best suits the needs of businesses and other regulated entities"*. The focus of the Code is transparency and communication between regulated and regulators.

The FRC's policy objectives in issuing these Guidelines are consistent with the Regulators Code. They aim to promote transparency, clarity, accessibility, predictability and a consistent approach by the Board to determining proportionate and appropriate Enforcement Measures that will provide a credible deterrent and bolster public and market confidence in the oversight by Recognised Bodies of their members.

The Board considers that, in determining the appropriate Enforcement Measures, the Board should have clear Guidelines as to the approach that they should take. However, the Guidelines should be flexible and allow for the exercise of discretion by the Board in taking into account the individual circumstances of each of a wide range of cases.

Therefore, a principles based approach rather than a tariff based approach is considered appropriate and more likely to provide the flexibility required bearing in mind a key rationale

behind ensuring regulatory compliance by way of Enforcement Measures is to ensure independence. This is also consistent with the principles of good regulation.

The Board intends to keep the Guidelines under review and revise them as appropriate in light of experience and in response to regulatory or legal developments.

Consultation Questions

Feedback on the proposed Guidelines is requested from interested parties in accordance with the following five questions:

- Question 1: Do you consider that the proposed Guidelines provide a clear framework to guide the decision making of the Board when imposing Enforcement Measures?
- Question 2: Do the proposed Guidelines include the factors that you would expect the Board should take into account when deciding which Enforcement Measure to impose?
- Question 3: What is your view of the starting point proposed (a percentage of the Recognised Body's total UK fee income) for calculating the amount of a financial penalty?
- Question 4: Do you consider there is anything missing from the proposed Guidelines that would improve their effectiveness?
- Question 5: Do you have any other comments about the proposed Enforcement Measures?

Preliminary Impact Assessment

An Impact Assessment was prepared as part of the FRC reform process which included the proposal that the FRC be provided with powers to impose Enforcement Measures.

The Impact Assessment concluded that there was not expected to be any additional cost or significant transitional costs associated with the powers. There are no changes to the Impact Assessment as a consequence of the proposed Guidelines.

A full copy of the original Impact Assessment can be found on the FRC's website:

<http://frc.org.uk/getattachment/ab71a300-1649-4ace-8472-ffeaae1c03db/Proposals-to-Reform-the-FRC-Consultation-Stage-Impact-Assessment.aspx>

How to respond

Please respond by 20 February 2015 at the latest. Earlier responses would be appreciated.

Responses should be sent (preferably by email) to: Sophie Broom, Communications Executive

FRC
8th Floor
125 London Wall
London EC2Y 5AS

Email: consultations@frc.org.uk

Full responses will be made publicly available on the FRC's website (www.frc.org.uk) unless respondents specifically request otherwise. If you send an email response which includes an automatically generated notice stating that the content is to be treated as confidential you should make clear in the body of your text whether or not you wish your comments to be treated as confidential.

Guidelines on Enforcement Measures against Recognised Supervisory Bodies and Recognised Qualifying Bodies

**for breach of the statutory requirements and obligations in
relation to the regulation of statutory audit set out in Part
42 Companies Act 2006**

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Introduction

1. Part 42 of the Companies Act 2006 (the '**Act**') imposes certain requirements and obligations on Recognised Supervisory and Qualifying Bodies (as defined by the Act) including requirements to participate in certain arrangements and obligations to maintain certain rules and practices (as set out in Schedules 10 and 11) when regulating statutory auditors (collectively, the '**Requirements**'). The Requirements are designed to secure that only persons who are properly supervised and appropriately qualified are appointed as statutory auditors, and that those persons carry out audits properly, with integrity and with a proper degree of independence.
2. Part 42 of the Act confers certain powers and functions regarding the oversight and regulation of statutory auditors upon the Secretary of State (the '**Part 42 Powers**'). The Part 42 Powers include the power to impose Enforcement Measures upon the Recognised Bodies, pursuant to section 1225 of the Act (the '**Enforcement Measures**') in the event of non-compliance by Recognised Bodies with the Requirements.
3. By section 1252 of the Act and by the Statutory Auditors (Amendment of Companies Act 2006 and Delegation of Functions etc) Order 2012, the Secretary of State has delegated its Part 42 Powers to the Financial Reporting Council Limited (the '**FRC**'). The FRC Board is responsible for the exercise of the Part 42 Powers.
4. The decision to impose Enforcement Measures is taken by the FRC in accordance with the provisions of Part 42. The FRC applies these Guidelines to ensure that its decisions are fair and consistent. The Guidelines are furthermore intended to make transparent the principles the FRC applies when carrying out its responsibilities.

Aims and Objectives

5. The FRC's aims and objectives when applying the Enforcement Measures are to:
 - Promote timely compliance by a Recognised Body with the Requirements;
 - Deter future non-compliance;
 - Achieve transparency and consistency of approach by the FRC when imposing any Enforcement Measure.

The Enforcement Measures are not intended to be compensatory or punitive measures.

Enforcement Measures and the FRC's approach

Direction

6. The FRC may order a Recognised Body to comply with any direction that it considers necessary to secure satisfaction or compliance with a Requirement or to mitigate or deter reoccurrence of such non-compliance, in accordance with the procedure required by section 1225B.
7. The FRC will usually impose a Direction where:

- the Recognised Body has not already rectified the non-compliance in question either on its own initiative or upon the request of the FRC to rectify the non-compliance on a voluntary basis;
- the public interest would be well served by requiring the Recognised Body to implement organisational or administrative arrangements that would avoid future non-compliance;
- the non-compliance follows previous examples of non-compliance.

Compliance Order

8. If the Recognised Body does not comply with a Direction, the FRC may apply to the High Court under section 1225C of the Act for a Compliance Order. The FRC may also apply directly to the Court for a Compliance Order, without first issuing a Direction.
9. Before applying for a Compliance Order the FRC will consider the following (non-exhaustive) factors:
 - a. If the FRC has not issued a Direction, why not, and should the Recognised Body be offered the opportunity to comply with a Direction before the FRC applies for a Compliance Order;
 - b. Has the Recognised Body unreasonably refused to enter into discussions regarding the non-compliance;
 - c. Is application for a Compliance Order proportionate to the non-compliance in question, having regard to the factors listed in paragraph 5;
 - d. Is there likely to be an imminent and significant adverse effect upon the regulation of statutory audit, statutory audit clients and any others, should the non-compliance continue.

Financial Penalty

10. The FRC may impose a Financial Penalty pursuant to section 1225D and 1225E of the Act, if a Recognised Body:
 - a. breaches any Requirement; and/or
 - b. has not complied with any Enforcement Measure imposed by the FRC pursuant to section 1225 of the Act.
11. The FRC will usually consider a Financial Penalty:
 - a. Where the non-compliance is repeated or continuing; and/or
 - b. In order to deter future non-compliance by the Recognised Body in breach or by other Recognised Bodies.
12. The FRC may but will not usually impose a Financial Penalty where:
 - a. The Recognised Body complied with the Requirement (in respect of which a Financial Penalty is being considered) before the FRC has issued a Notice of Proposed Penalty;

- b. The Recognised Body complied with the Requirement in respect of which a Direction was issued before the FRC has issued a Notice of Proposed Direction.
13. The FRC may, but will not usually, impose a Financial Penalty in isolation (i.e. without a Direction or Compliance Order) as it will normally be in the public interest for any non-compliance warranting the imposition of a Financial Penalty to be accompanied by some corrective action.

Approach for deciding which Enforcement Measure to Apply

14. When determining the appropriate Enforcement Measure(s), the FRC should have regard to the aims of the Act and the Aims and Objectives set out in paragraph 5 of these Guidelines and apply Enforcement Measures which are proportionate and tailored to the facts of the particular case.
15. When assessing proportionality, FRC should consider whether a particular Enforcement Measure is commensurate with the circumstances of the case, including the seriousness of the non-compliance, the circumstances of the Recognised Body concerned and the potential harm to the public.
16. When determining which Enforcement Measure(s) to impose, the FRC will usually assess the nature and the seriousness of the non-compliance by considering the (non-exhaustive) factors below:
- a. Has the Recognised Body derived (or did it intend to derive) any competitive advantage from the non-compliance?
 - b. The nature, extent and importance of the Requirements breached;
 - c. Was the non-compliance deliberate or reckless?
 - d. Did or could the non-compliance adversely affect a significant number of people in the United Kingdom (such as the public, investors or other market users, consumers, clients, employees, pensioners or creditors)?
 - e. Has the non-compliance undermined the purpose or effectiveness of the regulatory arrangements being carried out by the Recognised Body?
 - f. Has or could the non-compliance have undermined confidence in the regulation of statutory audit in the United Kingdom and/or the statutory audit profession generally?
17. Enforcement Measures may be imposed singly or in combination. Financial Penalties will usually be imposed in combination with another Enforcement Measure.
18. The FRC should give sufficient explanation of its approach for deciding which Enforcement Measure(s) to apply (and in the case of a Financial Penalty, for each of the Steps set out in Appendix 2), to enable the Recognised Body and the public to understand the FRC's conclusions.

Procedure

19. When applying Enforcement Measures, the FRC will follow the procedures set out in the Act and summarised in Appendix 1 to these Guidelines.
20. If the FRC decides to impose a Financial Penalty, it will usually follow the three-step approach set out in Appendix 2 to these Guidelines.

Publication

21. The FRC will publish the imposition of Enforcement Measures in accordance with the Act and as set out in Appendix 1 (Procedure). In summary:
 - a. The Act requires the FRC to publish a Direction Decision Notice in such manner as the FRC considers appropriate for bringing the Direction to the attention of persons likely to be affected;
 - b. The FRC may, at its discretion, but is not required to, publish the outcome of an application for a Compliance Order;
 - c. The Act requires the FRC to publish a Penalty Decision Notice in such manner as the FRC considers appropriate for bringing the Penalty to the attention of persons likely to be affected.

Approved by the FRC Board on [date] 2015

Appendix 1

Procedure

This Appendix notes (but should not be relied upon to the exclusion of) the procedural requirements set out in the Companies Act 2006 and in the Civil Procedure Rules. In the event of any inconsistency between those procedural requirements and this Appendix, the Companies Act 2006 and the Civil Procedure Rules shall prevail.

Direction

- 1.1 Issue a Notice of Proposed Direction which is compliant with section 1225B and:
 - a. Identifies the requirement or obligation which has prompted the FRC's issuance of the Proposed Direction;
 - b. Sets out the FRC's reasons for believing there has been non-compliance;
 - c. Encloses a copy of the Proposed Direction;
 - d. States the intention to impose the Proposed Direction;
 - e. Allows the Recognised Body at least 14 days to make written representations;
 - f. May also be expressed to be a pre-action letter for the purposes of later compliance with the Civil Procedure Rules Protocol on Pre-Action Conduct (the 'Protocol'), should the FRC later choose to apply to the Court for a Compliance Order (see para 2 below).
- 1.2 Consider any written representations which the Recognised Body has made within the period specified in the Notice of Proposed Decision.
- 1.3 Issue a Direction Decision Notice which is compliant with section 1225B and contains:
 - a. A copy of the Direction;
 - b. The time period for compliance with the Direction;
 - c. The period during which any limitation on the Recognised Body's ability to undertake particular engagements shall remain in effect;
 - d. The FRC's reasons for deciding to impose the Direction (the reasons should ideally reference any written representations submitted in time by the Recognised Body);
 - e. The identity of any person or organisation responsible for overseeing compliance with a Direction.
- 1.4 The Act requires the FRC to publish a Direction Decision Notice in such manner as the FRC considers appropriate for bringing the Direction to the attention of persons likely to be affected.

Compliance Order

- 1.5 Any application to the Court must be made pursuant to the applicable Civil Procedure Rules (the 'CPR')¹, and the parties will be expected by the Court to have complied with the Practice Direction on Pre-action Conduct (the 'Protocol') or to explain their reasons for non-compliance.
- 1.6 If the FRC has already issued a Notice of Proposed Direction or a Direction Decision Notice (which is compliant with and is expressed to be written pursuant to the Protocol), the FRC should consider if a separate Protocol Letter (see below) is still required.

Protocol Letter:

- 1.7 Before applying for a Compliance Order, the FRC will, where possible and appropriate, take reasonable and proportionate steps in the circumstances to comply with the Protocol including:
 - a. Setting out sufficient, written detail of the matter to the Recognised Body (a 'Protocol Letter');
 - b. Allowing the Recognised Body at least 14 days to provide a full response (longer if complex issues are at stake);
 - c. Giving proper consideration to alternative dispute resolution for example by way of discussion and negotiation.
- 1.8 The Protocol Letter should include:
 - a. The basis of the FRC's intended application;
 - b. A clear summary of the facts;
 - c. What the FRC requires the Recognised Body to do to avoid the application;
 - d. Identification of the essential documents (if any) relied upon by the FRC;
 - e. Identification of any additional information required by the FRC;
 - f. The FRC's proposal for a suitable alternative form of resolution (if any);
 - g. Express reference to the Protocol, including the Court's powers to impose Enforcement Measures for non-compliance and that if the Recognised Body does not respond, the FRC may issue the application and the Recognised Body's costs risk may therefore be increased.

¹ Including but not limited to CPR parts 8 and 49 as at the date of these Guidelines.

- 1.9 Where the FRC has not complied with the Protocol, it should consider if:
- a. It is, in the circumstances, still reasonable to proceed with the application; and
 - b. There is a risk of an adverse costs order.

Application for Compliance Order

1.10 Any application to the Court for a Compliance Order will be made under the applicable CPR requirements.²

1.11 The Recognised Body shall have 14 days from service in which to file an acknowledgement of service (and any supporting evidence), failing which the Recognised Body may attend but may not take part in the hearing (without permission of the Court) of the FRC's application.

1.12 The FRC may, at its discretion, but is not required to, publish the outcome of an application for a Compliance Order.

Financial Penalty

1.13 Issue a Notice of Proposed Penalty which:

- a. Identifies the requirement or obligation;
- b. Identifies the outstanding non-compliance as at the date of the Notice of Proposed Penalty, together with the FRC's reasoning;
- c. States the amount of the Financial Penalty proposed;
- d. States the intention to impose the Proposed Penalty;
- e. Allows the Recognised Body at least 21 days to make written representations.

1.14 Consider any written representations which the Recognised Body has made within the period specified in the Notice of Proposed Penalty.

1.15 Issue a Penalty Notice Decision stating:

- a. That the FRC has imposed a penalty on the Recognised Body and the amount;
- b. The information at para 3.1a-c above;
- c. The time period for payment which may not be less than 3 months from the date of the Penalty Notice Decision.

1.16 The Act requires the FRC to publish a Penalty Decision Notice in such manner as the FRC considers appropriate for bringing the penalty to the attention of persons likely to be affected.

² As at the date of these Guidelines, pursuant to CPR Part 49 by filing and service a CPR Part 8 claim form (together with supporting evidence)

Appeals

- 1.17 The Recognised Body may appeal a Financial Penalty within 3 months of the date of the Penalty Notice Decision by application to the Court pursuant to section 1225F of the Act, on any of the following grounds:
- a. Before the FRC issued the Proposed Penalty Notice, the requirement was satisfied or the obligation had been complied with;
 - b. Where the FRC has imposed a Financial Penalty for failure to comply with a Direction issued pursuant to these Enforcement Measures, the requirement or obligation had been satisfied before the FRC issued the Notice of Proposed Direction;
 - c. The FRC failed to comply with the section 1225E procedure before issuing a Financial Penalty (see paras 3.1-3.3 above);
 - d. The amount of the Financial Penalty is unreasonable;
 - e. The timescale for payment required by the FRC is unreasonable.
- 1.18 Where an appeal is made, the Penalty is not required to be paid until the appeal has been determined or withdrawn, but interest may accrue upon the unpaid Financial Penalty, at the Court's discretion.

Further enforcement

- 1.19 Where a Financial Penalty has not been paid or appealed by the Recognised Body within the required timescales, the FRC may recover the Financial Penalty and interest by way of a debt action.

Appendix 2

Approach for deciding level of a Financial Penalty

Step 1: Determine level of any Financial Penalty to be imposed

1. In cases where FRC considers that a Financial Penalty is appropriate, it should aim to impose a Financial Penalty that:
 - is proportionate to the non-compliance and all the circumstances of the case;
 - will act as a credible deterrent to future non-compliance; and
 - will promote public confidence in the regulation of statutory audit and in the way in which non-compliance is addressed.
2. The Financial Penalty should be set at an amount relating to the seriousness of the non-compliance (which may then be adjusted by Steps 2 and 3).
3. When assessing the starting point for an amount to reflect the seriousness of the non-compliance the FRC will usually:
 - a. Determine the figure based on a percentage of the Recognised Body's total UK fee income from its Members and Member Firms (the '**Relevant Fee Income**'):
 - (i) Where there is a single event of non-compliance the Relevant Fee Income will be based on the fees collected by the Recognised Body in the 12 months preceding the event of non-compliance;
 - (ii) Where there has been repeated non-compliance, the FRC may extend this to the period starting 12 months before the first date of non-compliance until the date of the last non-compliance;
 - (iii) Where the non-compliance is continuing, the FRC may calculate the non-compliance as at the date of the FRC's Penalty Notice Decision and add a daily rate of interest to act as a credible deterrent against continuing non-compliance. Such daily interest will not contribute to the maximum Financial Penalty set out above.
 - b. Having determined the Relevant Fee Income, the FRC will usually then decide on the percentage of that income which will form the basis of the penalty. In making this determination the FRC will consider the seriousness of the non-compliance and choose a percentage between 0% and 10%. This range is divided into 5 fixed levels which reflect, on a sliding scale, the seriousness of the non-compliance. The more serious the non-compliance, the higher the level:
 - Level 1 – 0-1%*
 - Level 2 – 1%*
 - Level 3 – 2%*
 - Level 4 – 5%*
 - Level 5 – 10%.*

- c. In determining which level is most appropriate, the FRC will usually take into account the impact and nature of the non-compliance and whether the non-compliance was deliberate or reckless.
- d. Factors relating to the impact of the non-compliance include:
 - (i) the effect on the quality of statutory audit;
 - (ii) the risks posed to statutory audit clients of the Recognised Body's Members or Member Firms;
 - (iii) level of the competitive advantage or any other benefit gained or loss avoided by the Recognised Body;
 - (iv) the aims of Part 42 of the Act.
- e. Factors relating to the nature of the non-compliance include:
 - (i) the nature of the Requirement(s) and of the non-compliance;
 - (ii) the frequency of such non-compliance.
- f. Factors tending to show the non-compliance was deliberate include where the Recognised Body:
 - (i) intended or foresaw that the likely or actual consequences of its actions or inaction would result in non-compliance;
 - (ii) gained or intended to gain a competitive advantage for the Recognised Body or its Members;
 - (iii) intended to benefit financially from the non-compliance, including by costs-saving;
 - (iv) sought to avoid or reduce the risk of the non-compliance being detected;
 - (v) repeated the non-compliance.
- g. Factors tending to show the non-compliance was reckless include where the Recognised Body:
 - (i) appreciated there was a risk that its actions or inaction could result in non-compliance and failed adequately to mitigate that risk;
 - (ii) was aware that there was a risk that his actions or inaction could result in non-compliance but failed to check if it was acting in accordance with internal procedures.
- h. Factors which are likely to be considered Level 4 or 5 factors include:
 - (i) risk to the system of statutory audit and/or the protection of the public;
 - (ii) damage to public confidence in the quality of the regulation of statutory audit;

- (iii) deliberate non-compliance;
 - (iv) a high number or percentage of Members or Member Firms benefitting unfairly from or being disadvantaged by the non-compliance.
 - i. Factors which are likely to be considered Level 1, 2 or 3 factors include:
 - (i) negligible or no risk to the system of statutory audit and/or the protection of the public;
 - (ii) negligible or no damage to public confidence in the quality of the regulation of statutory audit;
 - (iii) negligent or inadvertent non-compliance.
4. When assessing a Financial Penalty overall, the FRC should not take into account its costs in investigating the non-compliance or discharging its Part 42 Powers.
 5. Having arrived at a proposed Financial Penalty following Step 1, the FRC will usually next consider whether the proposed Enforcement Measure and/or proposed Financial Penalty should be adjusted in Steps 2 and 3.

Step 2: Make an adjustment for aggravating or mitigating circumstances

6. The FRC may increase the proposed Financial Penalty if the FRC considers that the Recognised Body's behaviour aggravated the non-compliance. Examples include:
 - the Recognised Body was or should have been aware of the issue and failed to bring the non-compliance to the attention of the FRC quickly, effectively or completely;
 - the Recognised Body failed to cooperate with, or hindered, the investigation of the non-compliance by the FRC;
 - no remedial steps have been taken since the non-compliance was identified, either on the Recognised Body's own initiative or as directed by the FRC;
 - the non-compliance was repeated and/or occurred over an extended period of time;
 - the non-compliance was committed with a view to profit (or avoidance of loss);
 - the Recognised Body facilitated wrongdoing by a Member or a Member Firm;
 - the Recognised Body's non-compliance facilitated a Member or Member Firm acting without the necessary authorisations, licences or registrations;
 - the FRC has previously brought to the Recognised Body's attention, including by way of a private advice or warning, issues similar or related to the conduct that gave rise to the finding of non-compliance in respect of which the Financial Penalty is to be imposed.
7. The FRC may decrease the proposed Financial Penalty if the FRC considers that the Recognised Body's behaviour mitigated the non-compliance. Examples include:

- the Recognised Body brought the non-compliance to the FRC's attention quickly, effectively and completely;
 - the Recognised Body cooperated during the FRC's investigation of the non-compliance;
 - the Recognised Body was aware of the non-compliance or that such non-compliance was likely to occur, and took appropriate steps to try to stop or prevent the non-compliance and/or mitigate its impact;
 - the Recognised Body took appropriate remedial steps once the non-compliance was identified, irrespective of whether such steps were taken on the Recognised Body's own initiative or that of the FRC;
 - the non-compliance was an isolated event that is unlikely to be repeated;
 - the Recognised Body did not stand to gain any competitive advantage, profit or other benefit from the non-compliance;
 - the Recognised Body has a good compliance history.
8. Self-reporting non-compliance to the FRC will usually attract greater credit than co-operation which has been prompted by the FRC's intervention.

Step 3: Adjust for deterrence

9. If the FRC considers that the proposed Financial Penalty arrived at, after Step 2, is insufficient to deter the Recognised Body or other Recognised Bodies, from committing further or similar non-compliance, the FRC may increase the proposed Financial Penalty to ensure that the intended deterrent effect will be achieved.
10. Examples of the circumstances where FRC will usually consider it appropriate to make such an adjustment include where FRC considers that:
- the Recognised Body already has a record for non-compliance of a similar nature;
 - Enforcement Measures imposed previously in respect of similar non-compliance have failed to achieve an improvement in compliance with the Requirements;
 - there is a risk of similar non-compliance in the future, whether by the Recognised Body in question or by other Recognised Bodies, in the absence of a sufficient deterrent;
 - the Financial Penalty is considered too small to meet the objective of credible deterrence.

Step 4: Sacrifice of any financial benefit derived by way of non-compliance

Where the Recognised Body has derived any financial benefit as a result of the non-compliance (i.e. by generating revenue or saved expenditure) it will usually be deprived of an equivalent amount and such equivalent amount may be added to the Proposed Financial Penalty arrived at after Steps 1 to 3.



Financial Reporting Council

8th Floor
125 London Wall
London
EC2Y 5AS

+44 (0)20 7492 2300

www.frc.org.uk